GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:129
ANSWERED ON:03.03.2000
LEGISLATION FOR NBFCS
ANANTRAO GUDHE

Will the Minister of FINANCE be pleased to state:

(a) Whether attention of the Government has been drawn to the news report captioned `RBI moots legislation for NBFCs` appearing in `The Business Standard` dated January 14, 2000;

(b) if so, the facts of the matter reported therein and the reaction of the Government thereto;

(c) the details regarding findings of the study of NBFCs by RBI and the action proposed to be taken for healthy growth of NBFCs and safeguarding the interests of investors;

(d) the details of the steps taken/proposed to be taken to strength the supervisory mechanism on the activities of NBFCs; and

(e) the names of NBFCs in Maharashtra which have been found violating the guidelines and prudential norms?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a),(b),(c),(d) & (c) : A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO.129 3rd MARCH, 2000 REGARDING LEGISLATION FOR NBFCs TABLED BY SHRI ANANT GUDHE, ,M.P.

(a) Yes, Sir.

(b) The news report refers to the need for new legislation to regulate Non-Banking Financial Companies (NBFCs). It also contains comments attributed to RBI officials on some aspects of the functioning of NBFCs. NBFCs are presently regulated under Chapter III-B of the Reserve Bank of India Act. There is a proposal under the consideration of the Government to introduce legislation to deal with NBFCs.

(c) There has recently been no formal study of NBFCs undertaken by RBI. The reference is presumably to a report submitted by a Task Force constituted by the Government to address the twin objectives of ensuring the healthy growth of the NBFC sector and the safeguarding of the interest of the depositors in NBFCs.

The recommendations of the Task Force relating to -

(i) higher entry level Net Owned Fund (NOF);

(ii) higher capital to Risk Asset Ratio (CRAR) for NBFCs seeking public deposit;

(iii) ceiling on exposure to real estate and unquoted investment;

(iv) disclosure in application form and advertisement for public depositors;

(v) tightening of norms for exposure to connected companies;

(vi) review of particulars to be disclosed in advertisements and

(vii) unincorporated bodies to have access to loans from corporates have been implemented by Reserve Bank of India (RBI) by way of issue of appropriate directions.

The implementation of recommendations relating to -

(i) unsecured depositors to be given first charge on liquid assets;

(ii) setting up of a Depositors` Grievance Redressal Authority;

(iii) Speedy winding up of errant NBFCs on the lines of commercial banks;

(iv) empowering RBI to direct a particular NBFC or a class of NBFC to seek prior approval for appointment of statutory auditors;

(v) attachment of assets of fraudulent NBFCs by notification by RBI and the management of such assets to be vested with a custodian to be appointed by RBI;

(vi) unauthorized deposit taking by unregistered NBFCs to be made a cognizable offence;

(vii) unauthorized deposit taking by unincorporated bodies to be made a cognizable offence;

(viii) ban on issue of advertisement soliciting public deposits,- requires changes in legislation. Action has been initiated for enactment of a new Act for NBFCs to give effect to recommendations requiring statutory amendments.

In addition, as per the recommendations of Task Force, State Governments have been provided with the list of NBFCs who have been granted registration and those applications for registration have been rejected. To ease flow of credit from banks to NBFCs, the ceiling on bank lending to NBFCs registered with RBI has been removed in May 1999.To have a better coordination between regional offices of RBI and the regional office of the Company Law Board, Regional Level Coordination Committees have been set up in four metro centres. RBI has also started a publicity campaign for educating the depositors.RBI has started annual inspection of NBFCs accepting public depositors.A separate Executive Director has been appointed for NBFCs with effect from September 1, 1999.

(d) RBI has been taking various regulatory and supervisory measures to ensure healthy growth of NBFC sector as also to provide reasonable safety to the depositors` money. RBI has developed a comprehensive four pronged mechanism to effectively supervise the NBFCs accepting/holding public deposits. This involves -

- On site inspection of NBFCs.
- Offsite monitoring of NBFCs through periodic control returns from NBFCs using state-of-art information technology;
- An effective market intelligence network; and
- A system of submission of exception reports by auditors of NBFCs

RBI has initiated corrective action against errant NBFCs for various defaults and contravention of provisions of RBI Act and Directions issued thereunder.

Under the RBI Act, Company Law Board (CLB) has been authorized to adjudicate the claims of depositors with specific powers to direct the defaulting companies to make repayments. RBI has appointed Nodal Officers at its Regional Offices for instituting prosecution proceedings against defaulting NBFCs.RBI has also constituted Co-ordination Committees at four metro centres to oversee the implementation of CLB orders by NBFCs.

Some additional penal provisions have been proposed for incorporation in the proposed new legislation for NBFCs making some offences cognizable.

(e) The names of NBFCs in Maharashtra having net owned fund of Rs.25 lakhand above which have accepted deposits and have violated prudential norms and RBI directions are at Annexure I.